

Message Text

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ACTION EA-14

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C O N F I D E N T I A L SEOUL 6211

DEPT PASS AID/W

EO 11652: GDS

TAGS: BEXP, ETEL, KS

SUBJ: MAJOR PROJECTS: TELEPHONE CENTRALS FOR KOREA

COMMERCE PASS MAJOR PROJECTS AND BDC MR. T.ZM CORLESS

REF: STATE 187129

1. EMBASSY DOES NOT TAKE ISSUE WITH JUDGMENT IN PARA 1
REFTEL AND RECOGNIZES THAT YOUR ARGUMENTS RE SOURCING OF
PROJECTION EQUIPMENT AND PRICE PARTS VALID. ITT REPRESENTATIVES
THEMSELVES ADMIT THAT GTE SYSTEM PRESENTLY INVOLVES MORE U.S.
EXPORT POTENTIAL THAN THEIRS. WHETHER TOTAL WORLD OPERATIONS
OF U.S. MULTINATIONAL LIKE ITT IS BENEFICIAL OR DETRIMENTAL TO
U.S. BALANCE OF PAYMENTS ON GLOBAL BASIS IS SUBJECT OF CONSIDERABLE
LITERATURE. BASIC QUESTION HERE IS WHETHER U.S. BALANCE OF
PAYMENTS BENEFITS MORE FROM ITT PROFIT REMITTANCES WHEN ITT IS
SUCCESSFUL BIDDER FOR LOCAL PROJECT VERSUS SITUATION WHEN
GERMAN OR JAPANESE CONTROL LOCAL PRODUCTION OF TELEPHONE
EQUIPMENT. WE DO WISH TO POINT OUT FOR THE RECORD, HOWEVER,
THAT NEITHER NORTH ELECTRIC NOR GTE CURRENTLY ACTIVE IN KOREA
TO OUR KNOWLEDGE. ITT, IN CONTRAST, HAS FULL-TIME LOCAL
REPRESENTATIVE AND TELECOMMUNICATIONS ECONOMIST ON BOARD
WORKING WITH PROSPECTIVE JOINT VENTURE
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PARTNER. NO ROKG APPROVALS HAVE BEEN OBTAINED. THE NORTH ELECTRIC

PROPOSAL WAS RECEIVED COOLY (SEE FOR INSTANCE SEOUL 6494, SEPTEMBER 25, 1973) AND GTE PROPOSAL WAS LIMITED TO LOCAL PRODUCTION OF PABX EQUIPMENT. NEITHER PROJECT FITS INTO ROKG'S POTENTIALLY MORE GRANDIOSE PLANNING IN OUR JUDGEMENT.

2. THIS ALSO OUR IMMEDIATE REACTION TO REHABILITATED EQUIPMENT SUGGESTED IN REFTEL. AS IN OTHER SECTORS (SHIP-

BUILDING IS A PRIME EXAMPLE) KOREA ATTEMPTED TO MAKE QUANTUM LEAP INTO MODERNITY. THUS THE CONCEPT OF HALF MEASURES WILL NOT APPEAL TO TECHNICIANS. WHETHER THE LOWER COST ALTERNATIVE OF REHABILITATED EQUIPMENT WILL APPEAL MORE TO ECONOMIC PLANNERS REMAINS TO BE SEEN WITH TAIWAN NOW FINALIZING ITS JUDGMENT ON THE ITT AND GTE COMPETITION FOR THE SUPPLY OF ELECTRONIC SWITCHING SYSTEMS AND WITH MOST OF ITS OTHER NEIGHBORS GOING IN THAT DIRECTION, IT IS DOUBTFUL THAT ROKG WILL ACCEPT HALF MEASURES FOR REASONS OF NATIONAL PRESTIGE. WHILE LOWER TOTAL COST OF REHABILITATED EQUIPMENT MIGHT APPEAL TO ECONOMIC PLANNERS, THE HIGHER IMPORT COST WILL NOT. THEREFORE, SINE QUA NON WILL BE HEAVY LOCAL VALUE ADDED, THAT IS, MOST OF REHABILITATION WORK TO BE DONE IN KOREAN FACTORIES.

3. ECON COUNSELOR HAS DISCUSSED THE REHABILITATED TELEPHONE CENTRAL CONCEPT BRIEFLY WITH DEPUTY PRIME MINISTER (WHO ALSO MINISTER ECONOMIC PLANNING BOARD, EPB). IT WAS AGREED WITH DPM THAT UPON EXPRESSION OF ROKG INTEREST, EMBASSY WOULD PURSUE MATTER FURTHER WITH WASHINGTON. UPON RECEIPT THIS EXPRESSION OF INTEREST EMBASSY PLANS PRESENT DPM WITH COPY OF TELECONSULT FEASIBILITY STUDY FOR HONDURAS. CONCURRENTLY COMATT CALLED ON INTERNATIONAL COOPERATION OFFICER IN MINISTRY OF COMMUNICATIONS. IN CONTRAST TO EARLIER DISCUSSIONS WITH MINISTER MUN, BUT PERHAPS UNDERSTANDABLY, THIS WORKING LEVEL OFFICIAL WAS RELUCTANT TO DISCUSS PROGRESS OR CONTENTS OF CURRENTLY ONGOING REVIEW OF KOREAN TELEPHONE NEEDS. EMBOFF REITERATED NEED FOR INDEPENDENT FEASIBILITY STUDY BY CONSULTANT NOT TIED TO VENDOR. THIS CONVERSATION FOLLOWED UP WITH LETTER
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INFORMING MINISTRY THAT EMBASSY WOULD BE PLEASED TO ASK GTE, ITT, AND NORTH ELECTRIC TO BRIEF MINISTER ON THEIR PROGRAMS. (REMEMBER THAT MINISTER MUN HAS REPEATEDLY EXPRESSED DISAPPOINTMENT AT LACK OF INTEREST BY U.S. COMPANIES.) OUR LETTER ALSO MENTIONED ASTRODATA TELEX AND DATA SWITCHING CAPABILITIES.

4. IN ORDER PREPARE US FOR ANY EVENTUAL FURTHER DISCUSSIONS

WITH EPB OR MINISTRY COMMUNICATIONS, PLEASE AMPLIFY PARA
FOUR OF REFTEL. IS AT&T REALLY INTERESTED IN GOING INTO
REHABILITATION OPERATIONS OR WILL INDEPENDENT COMPANY BE
SET UP? WILL OPERATIONS BE CONDUCTED 100 PER CENT IN U.S.
OR WILL REWORK BE DONE IN KOREA, OR MIXED? WHAT TIME FRAME
ARE WE TALKING ABOUT? HOW SOON COULD REHAB SUBSIDIARY BE SET UP?
PLANT OPERATIONS? FIRST DELIVERIES? WHAT WILL BE THE
DOLLAR COST SAVINGS AND LOCAL COST SAVINGS VERSUS FULL
LOCAL PRODUCTION OF ELECTRONIC SWITCHING SYSTEMS? HOW WILL
FINANCING BE PROVIDED? IS USED REHABILITATED
EQUIPMENT ELIGIBLE FOR EXIMBANK FINANCING? WILL FINANCING
BE AVAILABLE? IS EQUITY INVESTMENT IN KOREA A POSSIBILITY?

5. EMBASSY ACUTELY AWARE THAT PROJECT OF THIS MAGNITUDE
WILL ATTRACT CONSIDERABLE COMPETITION. WE BELIEVE BEST
PATH TO FOLLOW TO MAXIMIZE FAVORABLE IMPACT U.S. BALANCE
OF PAYMENTS IS TO GET U.S. CONSULTANTS ON THE GROUND
WITH A SCOPE OF WORK WHICH INCLUDES COST/FEASIBILITY
OF REHABILITATED EQUIPMENT. WE BELIEVE THAT EXPRESSIONS
OF INTEREST BY TELECONSULT, WESTERN ELECTRIC, AND OTHERS
DIRECTLY TO ROKG MIGHT BE USEFUL IN STIMULATING ACTION IN
THIS DIRECTION. YOUR EFFORTS ON WASHINGTON END
APPRECIATED.
SNEIDER

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